

Message Text

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TO AMEMBASSY BRASILIA PRIORITY

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E.O. 11652: N/A

TAGS:BENC, BR

SUBJECT:SIDERBRAS STEEL EXPANSION BIDDING PROCEDURES

REF: STATE 051293, RIO DE JANEIRO 880

1. IN MARCH 4 MEETING WIT; IBRD OFFICIALS WE CONFIRMED
OUR 'NDERSTANDING THAT THE BANK'S REQUIREMENT FOR
INTERNATIONAL COMPETITIVE BIDDING MUST BE APPLIED TO ALL
SUPPLIERS REGARDLESS OF THE SOURCE OF FINA'ING. THIS
PROVISION WAS INCORPORATED IN THE LOAN AGREEMENT
SPECIFICALLY AT THE REQUEST OF SIDERBRAS AND THE STEEL
COMPA'IES. BANK OFFICIALS SURMISE THAT BRAZILIANS
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INSISTED ON THIS PROVISION 0ECAUSE THEY RECOG'IZED LOCAL

EQUIPMENT WOULD BE MORE EXPENSIVE, LESS DEPENDABLE AND COULD RESULT IN DELAYS IN THE IMPLEMENTATION OF PHASE III STEEL PRODUCTION.

2. THE BANK VIEWS THE CURRENT CONTROVERSY BETWEEN THE STEEL COMPANIES AND LOCAL CAPITAL EQUIPMENT SUPPLIERS AS A BRAZILIAN POLITICAL PROBLEM WHICH SHO'D BE RESOLVED DOMESTICALLY. IF THE LOCAL PRESSURE ON THE STEEL

COMPANIES BECAME TOO GREAT THE IBRD COULD DISCUSS CHANGES IN THE SIDERBRAS LOAN AGREEMENT. HOWEVER THE BANK WOULD

ADVISE AGAINST ANY CHANGES IN THE BID PROCEDURES BECAUSE OF THE EFFECT THIS WOULD HAVE ON THE BIDDING WHICH IS

ALREADY UNDERWAY. FURTHERMORE THE BANK BELIEVES THE BI-LATERAL AGENCIES WOULD VIEW A MAJOR CHANGE AT THIS TIME AS A NEGATIVE FACTOR IN CONSIDERING ANY FUTURE FINANCING FOR PROJECTS IN BRAZIL.

3. IBRD DIRECTORS WIESE AND GREENE DID DISCUSS BANK'S PROCUREMENT GUIDELINES WITH THE BRAZILIANS DURING THEIR RECENT VISIT. THEY ADVISED THAT THE STEEL COMPANIES INTERESTS ARE BEST SERVED THROUGH NEGOTIATING, BY INTERNATIONAL COMPETITION, WITH THE BIDDER SUBMITTING THE LOWEST EVALUATED PRICE.

4. COMMENT: IT SEEMS THAT SIDERBRAS AND THE STEEL COMPANIES ARE USING THE IBRD AS THE SCAPE GOAT FOR THIS CURRENT CONTROVERSY. IN OUR OPINION IT IS UNLIKELY THERE WILL BE ANY CHANGES IN THE BIDDING PROCEDURES WHICH WILL GIVE AN ADDITIONAL PREFERENCE TO BRAZILIAN SUPPLIERS SINCE THE STEEL COMPANIES EVIDENTLY PREFER FOREIGN TECHNOLOGY. AS A RESULT THE LOWEST PRICE WILL CONTINUE TO BE THE KEY VARIABLE IN AWARDING CONTRACTS. THEREFORE WE INTEND TO ADVISE AMERICAN COMPANIES THAT THEY SHOULD ATTEMPT TO SUBMIT THE LOWEST EVALUATED PRICE REGARDLESS OF WHETHER OR NOT IT INCLUDES BRAZILIAN LIMITED OFFICIAL USE

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PROCUREMENT. KISSINGER

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